

THE ROLE OF RISK CULTURE IN SMEs WHO OPERATE IN THE GJIROKASTRA REGION

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Abstract

SMEs face tough competition in their market, with obstacles and barriers affecting various aspects of their day –to –day activity, such as, launching and marketing new products, taking market shares away from existing and new SMEs. This is because of many reasons, ranging from their size, limited financial resources and constraints in hiring qualified personnel compared to larger enterprises. The nature of the risks faced by SMEs in their everyday activity affecting the decision making process, right implementation practices, employing the right people, and other related issues is very different from the risk faced by large businesses. In this article we will try to identify and highlight the impact of risk culture in the activity and performance of SMEs. With the aim of trying to present a complete picture of the situation we will analyse SMEs in the Gjirokastra region, focusing on their organizational framework with the purpose of identifying and highlighting the risk culture. Primary data used in this research is gathered through structured questionnaires, addressed to a number of executives. Furthermore we categorise the economic enterprises based on criteria such as number of employees, turnover, year of establishment etc, in order to facilitate the work to be done regarding the highlighting and assessing of risk culture. Moreover, we have also consulted foreign literature, which provided us with plenty of relevant information. Albanian

literature regarding the identification and assessment of risk culture is very scanty, almost inexistent. At the end of this paper we reach several conclusions and make valuable recommendations regarding the most effective management of risk culture.

Keywords: Risk culture, SMEs, risk identification, risk assessment, Gjirokastra region

Introduction

SMEs belong to that category of business enterprises who are faced the most with a frequently changing market in which they operate, consequently they are faced with bankruptcy, failure, financial difficulties, lack of liquidity, lending difficulties, unqualified personnel, and many other problems. According to the scientific literature regarding SMEs, it can be said that their failure rate is many times higher than the rate of large enterprises. This is also because of differences in law regarding the control of their activity as compared to larger business.

SMEs are the largest group of economic enterprises, including micro, small and medium enterprises. The nature of their operations, their performance, the structure of their assets, liabilities and capital, funding opportunities, the hiring of employees, their training and qualification, and many other such elements are fundamentally different from those of larger enterprises. From this perspective, the nature of risk with which SMEs are faced is therefore different from the risk faced by larger enterprises, consequently the identification, assessment and managing methods are different too.

SMEs face tough competition in their market, with obstacles and barriers affecting various aspects of their day –to– day activity, such as launching and marketing new products, taking market shares away from existing and new SMEs. This is because of many reasons, such as, their size, limited financial resources, and constraints in attracting qualified personnel compared to larger enterprises.

The risks with which SMEs are faced in their everyday activity regarding the decision making process, correct implementation practices, the hiring of qualified employees, and other issues are very different from the risks faced by larger businesses. In this research we will try to identify and highlight the impact of risk culture in SMEs activity and performance.

The definition of SME varies from country to country. In Albania the definition of SME is regulated by Law Nr 8957, dated 17.10.2002 “On the Small and Medium Enterprises”, changed. Microenterprises are called those enterprises, which employ up to 9 employees and their annual turnover does not exceed 10 million lek³². Small enterprises are called those enterprises which employ between 10 to 49 employees and have an annual balance sheet less than 50 million lekë. Medium enterprises are called those enterprises which employ between 50 to 249 employees and have an annual balance sheet up to 250 million lek.

Objectives

The main objective of this article is **the definition of the level of perception of risk culture and of its role in the activity of SMEs in the Gjirokastra region.**

With the aim of achieving the main goal some secondary aims have also been highlighted:

- i. SMEs in the Gjirokastra region try to create a healthy culture in their environment.
- ii. SMEs in the Gjirokastra region try to keep the most important aspects of risk culture under control.

Literature review

The theoretical concepts of various scholars regarding risk culture are different, but despite this all these concepts stem from recognising the culture of the organisation. The culture of the organisation serves as the main source for recognising, understanding and controlling risk culture. Edgar Schein is regarded as one of the most important scholars of organizational culture, and his work has served as a strong impetus for the work of other scholars.

According to Edgar Schein(2010) organizational culture is a model of set assumptions created, discovered or developed by a certain group, while it learns how to handle the problems related to the adaptation to the outside environment and integration into the inside environment, and which has functioned well enough to be considered valuable to be taught to the new members as a just way to be perceived, thought and felt related to those problems.

³² Lek is Albania money

According to Cameron and Quinn (2011) the culture of an organization is reflected in its value, in the style of its leadership, in the language and symbols, in the procedures and common rules, and in the definition of success which the organisation achieves as a whole.

According to Alvesson (2002) culture is not primarily “inside” the minds of the people, but it is somewhere “between” the minds of the people of a group where the symbols and meanings are expressed publicly.

Thus, organizational culture can be a source of complex problems which generates different behaviours and attitudes. In this context it serves as a potential source of risk culture. Risk culture has received a great attention especially after the financial crisis which broke out in 2008 in the USA and spread over into Europe. According to Power et al (2012) in order to understand the sources of the crisis we need to understand the role of the culture of financial organizations and that this culture needs changing, regardless of the way in which this can be done, it is necessary to return the trust of the public in the organizations and to make sure that similar crises do not happen in the future³³.

According to Levy et al (2010) risk culture of the organizations has to do with the norms of the individuals and groups inside the organization which determine the ability to identify and assess, to discuss openly and to act in the conditions of current and coming risk culture.

According to FSB (2014) risk culture like the organizational culture develops with the passing of time through the relations and events which influence the history of the organization³⁴. Moreover this risk consists in the fact that the workers of every department of the organization conduct their activities in a legal and ethical way.

From this short review of literature results that almost all the scholars who have studied risk culture, have related the existence of risk culture with that of the organizational culture. In this context the study of risk in this article has been done based on the highlighting of culture of SMEs in the Gjirokastra region and of the way in which this culture affects risk culture prompting the SMEs to take measures to defend against it.

³³ Power. M, Ashby. S, Palermo. T : “Risk Culture in Financial Organizations”, 2012

³⁴ Financial Stability Board “**Guidance on Supervisory Interaction with Financial Institutions on Risk Culture** - A Framework for Assessing Risk Culture” , 2014.

Methodology

We surveyed about 150 businesses which belonged to the category of SME. A questionnaire served as the basis of survey, which enabled us to gather the necessary data.

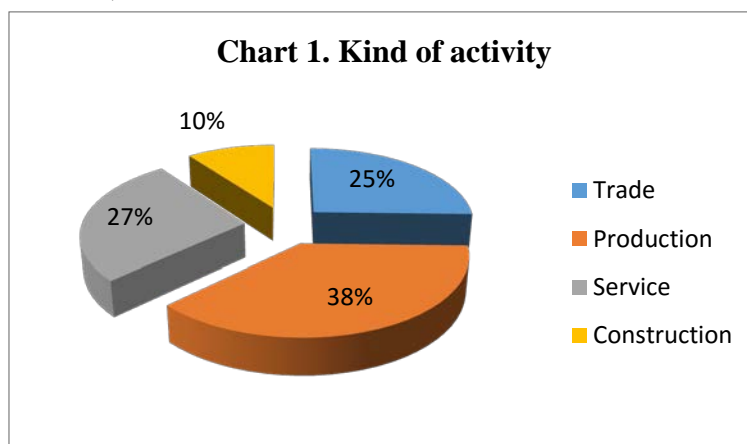
A questionnaire has several options for each question, and the respondent has only to select the right answer (Babbie, 1990). The questionnaire is a means to gather data from the population under study. The objective of using the questionnaire is to help the interviewer to reach conclusions (Jankowicz 2000, p222). A questionnaire is considered as a technique which is used to gather data which express the individual perception of every subject which is interviewed in the meaning that every subject has been asked to answer the questions in a predetermined way.

To process the data gathered through the questionnaire we made use of the descriptive method and graphic analysis. Through the graphic interpretation of the data we were able to describe the cause –effect relationship and to highlight the elements which affect the risk culture of SMEs in the Gjirokastra region.

We have also made use of the contemporary literature which provides ample support from the theoretical point of view.

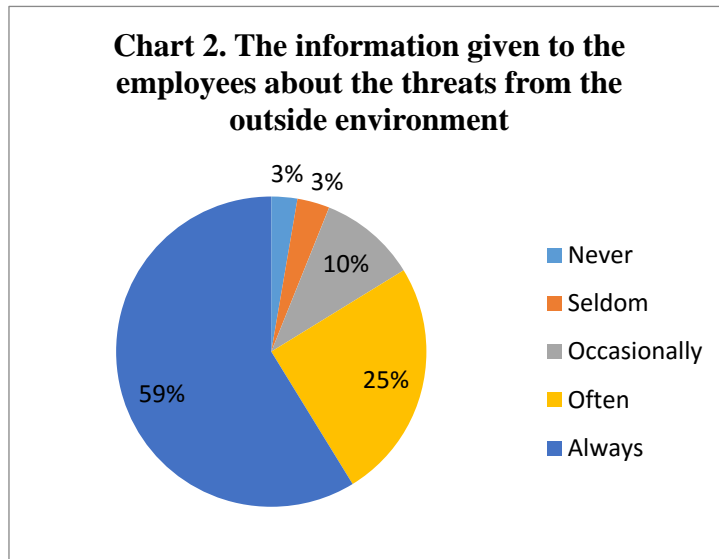
Data analysis.

In this study we interviewed 150 SMEs in the Gjirokastra region , where 25.4% of them were in the trade sector, 37.5% of them in the production sector, 27% of them in the service sector and 10.1% of them in the construction sector, chart 1.

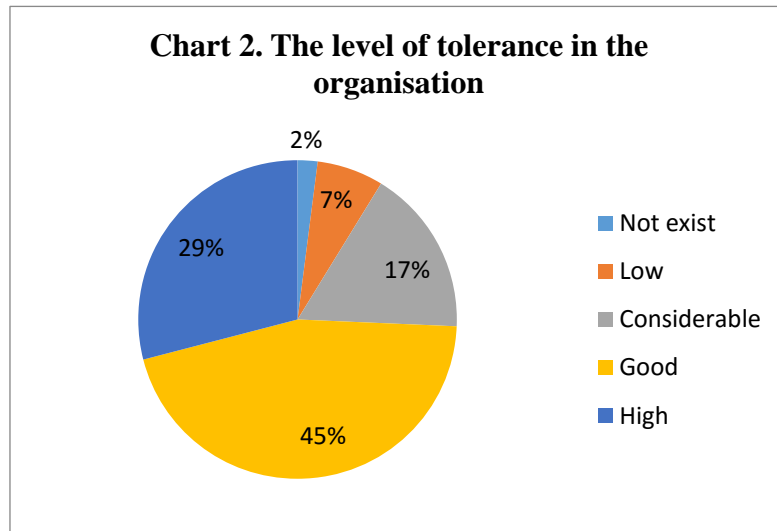


The data gathered through the interviewing of SMEs were processed through a database utilising Excel application, which yielded the following answers:

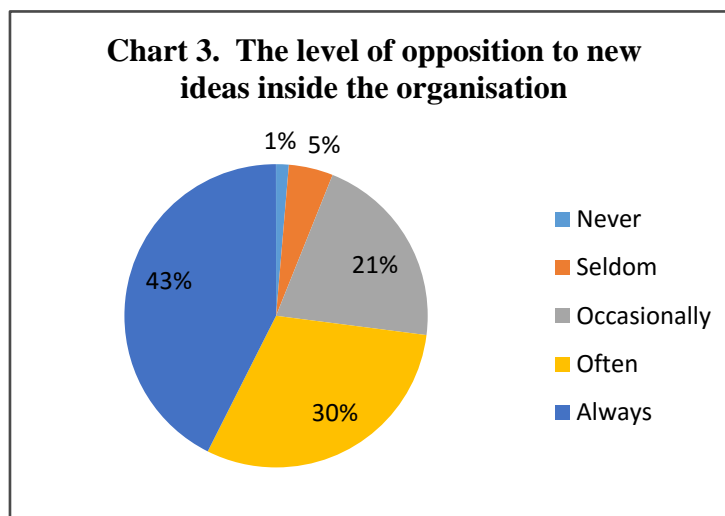
1. To the question **“Do the CEOs tell the employees about the potential threats which the organisation faces?”** 3% of the SMEs answered “Never”, 3% answered “Seldom”, 10% answered “Occasionally”, 25% answered “Often” and 59% of them answered “Always”, chart 2.



2. To the question **“What is the level of tolerance regarding the mistakes made in their organisations”** 2% of the SMEs answered that such a tolerance does not exist, 7% of them answered that there exists a low level of tolerance, 17% answered that they experienced a considerable level of tolerance, 45% admitted that in the environments where they work there is a good level of tolerance and 29% of them admitted that there is a high level of tolerance regarding the mistakes employees make at work.

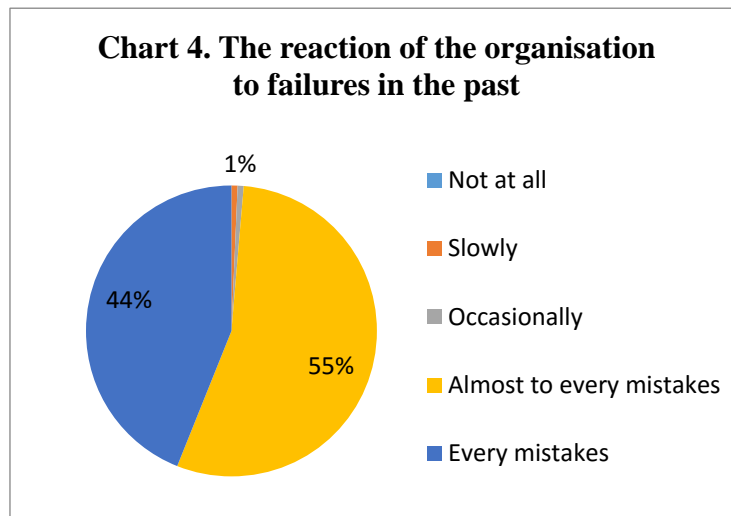


3. To the question **“Are new ideas opposed in the organisation”** 1% of the SMEs answered that new ideas are never opposed, 5% admitted that new ideas in the organisation are seldom opposed, 21% admitted that new ideas are occasionally opposed, 30% of them admitted that new ideas are opposed quite often, and 43% admitted that new ideas are always opposed to by the employers.

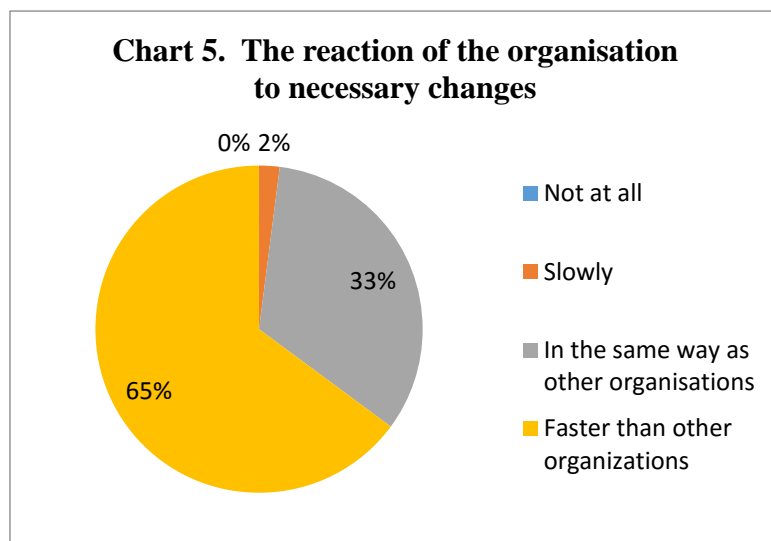


4. To the question **“How has the organisation reacted to mistakes made in the past”** only 1% of the SMEs answered that they reacted to mistakes made in the past, whereas 55% of them reacted almost to every

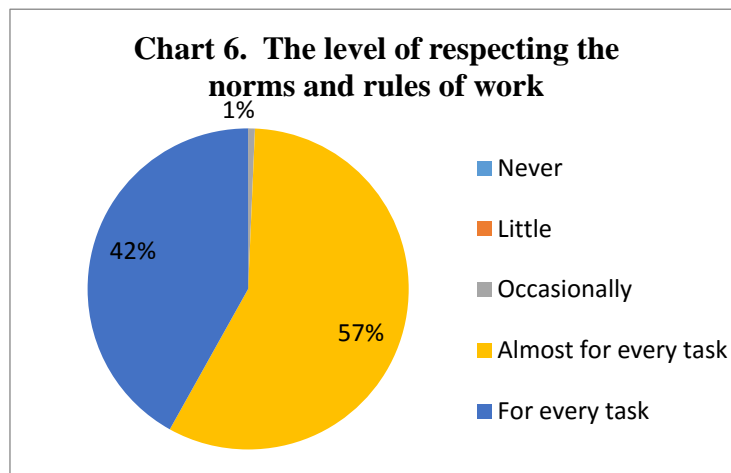
mistake, and 44% of them reacted to every mistake made in the. So, the interviewed SMEs, in general, were cautious to mistakes made in the past and took the necessary steps to improve the situation.



5. To the question “**How does the organisation reacts to necessary changes to its activity in order to handle the competition?**” 2% of the SMEs answered that they react very slowly due to the lack of human capital, 33% answered that they react in the same way as other organisations, whereas 65% of them answered that they react faster than other organisations being always a step ahead of their competitors.



6. To the question **“Do the workers respect the rules of the organisation?”** 1% of the SMEs answered that their workers respect the rules of the work **“Occasionally”**, 57% of them answered that the norms and the rules of the work are respected **“almost for every task”**, whereas 42% of them answered that the norms and the rules of work are respected **“for every task”**.



Conclusion and recommendations

At the end of our article we can say that the SMEs in the Gjirokaštër region show a considerable level of perception of risk culture in their environments. They pay a lot of attention to this kind of risk aiming to establish and maintain a strong and healthy culture in their organisation, which is often random and not properly planned by them. Nevertheless, these kinds of efforts to maintain a healthy culture on the part of the SMEs have positively influenced keeping risk culture under control.

From the article we see that SMEs have a great perception of some elements of risk culture, such as, the level of tolerance in the organisation, the opposition to new ideas, the reaction to mistakes made in the past, the reaction to changes necessary in the future, or the respect of the norms and rules of work, and at the same time they also aim to minimise risk culture.

Some recommendations:

- SMEs should pay more attention to the steps needed to create their organisational culture, because once this kind of culture is established it is very difficult to change.

- SMEs should aim to be open to new ideas and discuss them through their hierarchy.
- SMEs should react faster to mistakes and failures of the past taking immediate steps to fix any undesirable situations.
- SMEs should pay great attention to the norms and rules of ethics in their organisations.

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